

## I. INTRODUCTION

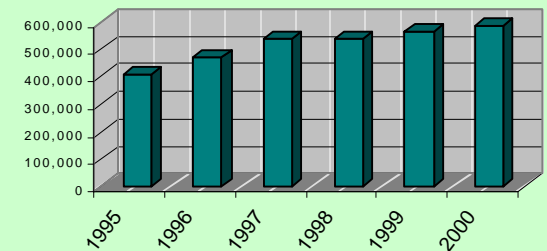
### A. YEAR'S HIGHLIGHTS

At the close of the millennium, charitable gaming in Kentucky posted its highest “handle,” or gross receipts in the history of the Department. In 2000, the gross handle was \$584.4 million with the bulk of this number being pulltab sales. This is an increase in gross receipts of almost \$20 million dollars. In comparison, the gross handle in 2000 for the Kentucky Lottery was \$583.7 million with only 27.8% of that amount transferred to the General Fund after payouts and expenses.

More importantly, the percentage of total dollars wagered retained by the charities has increased over 1999. In 2000 the charities had over \$46 million available for charitable purposes after pay-outs and expenses which is \$9 million more than in 1999. The Department is especially pleased that the statewide retained percentage increased from 49.77% to 54.02%. Congratulations to the charities for their hard work.

The Department also now tracks more statistics than in the past. We can now track *reported* attendance and break down expenses by category. In 2000 the reported attendance was 5,137,904 people. Over one-half (1/2) of this attendance occurred in four (4) counties: Jefferson, Simpson, Boyd, and Whitley. It is interesting that these numbers do not correlate to the population centers except in the case of Jefferson County. In fact, the next three (3) counties are small in population but are on the borders and draw their gaming population from contiguous states. These numbers also do not necessarily correlate to gross receipts. The four (4) largest gaming counties in gross receipts are: Jefferson, Boyd, Whitley, and Simpson.

**Gross Receipts (in millions)**



1995	411,382,876.62
1996	471,304,797.27
1997	540,902,177.16
1998	540,306,101.47
1999	564,220,053.83
2000	584,465,216.30

Year 2000 also posted improvements in compliance, administrative action, audit and enforcement. It was a banner year in that the Department received limited law enforcement capability and now has five (5) sworn officers employed as investigators and a total of nine (9) sworn law enforcement officers employed total. This recognizes both the awareness of the criminal element involved in charitable gaming and the commitment of the Department in assisting the local law enforcement community in finding and prosecuting this criminal element.

## B. COMPARISON TO OTHER STATES

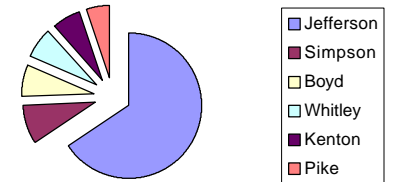
There are currently forty-six (46) states and the District of Columbia that have some type of charitable gaming. These games primarily include bingo, pull tabs and raffles but can include other types of games. As of June of 1999, the states that did not have any type of charitable gaming are Arkansas, Hawaii, Tennessee, and Utah. Kentucky has consistently ranked within the top five (5) states in gross receipts (handle) in charitable gaming. The other four (4) are Minnesota, California, Ohio, and Texas. Indiana is consistently sixth (6<sup>th</sup>) in the nation. Minnesota is far and away the leader in charitable gaming with almost one and a half (1/2) billion dollars wagered in 1999. California<sup>1</sup> and Ohio wagered over \$700 million, Texas wagered over \$600 million, and Indiana and Kentucky wagered over \$500 million in 1999. The national statistics are not yet available for 2000.

## C. HISTORY IN KENTUCKY

Charitable gaming does not include games of skill, lottery schemes, pari-mutuel wagering, the use of slot machines or electronic video gaming

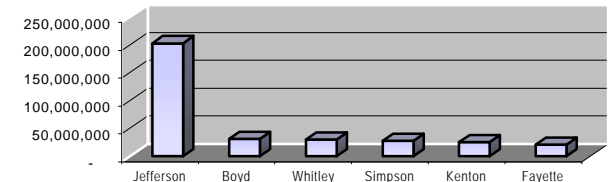
<sup>1</sup> Because it is locally regulated, the numbers for California are estimates and not exact totals.

Six Largest Gaming Counties by Attendance



Jefferson	1,946,265
Simpson	264,969
Boyd	213,025
Whitley	203,774
Kenton	187,095
Pike	157,786

Six Largest Gaming Counties by Receipts



Jefferson	202,973,422
Boyd	31,504,655
Whitley	30,065,543
Simpson	27,804,259
Kenton	26,756,248
Fayette	21,348,001

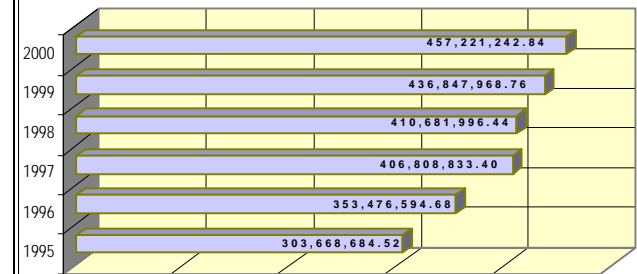
devices, wagering on live sporting events, or wagering on simulcast broadcasts of horse races. It does include bingo, pulltabs, raffles, casino nights and non-cash prize wheels.

In 1992 the Kentucky Constitution was amended to allow for charitable gaming. Statutes (KRS 238) regulating charitable gaming were passed in 1994, with major revisions made in 1996, 1998, and 2000. The legislative intent of KRS 238 embodies a belief that charitable gaming is an important method of raising funds for legitimate charitable purposes. The Statutes establish standards for the conduct of charitable gaming which ensure honesty and integrity and provide for a means of accounting for all moneys generated through the conduct of charitable gaming. One of the main goals of the statute is the prevention of the commercialization of charitable gaming and the prevention of the diversion of funds from legitimate charitable purposes.

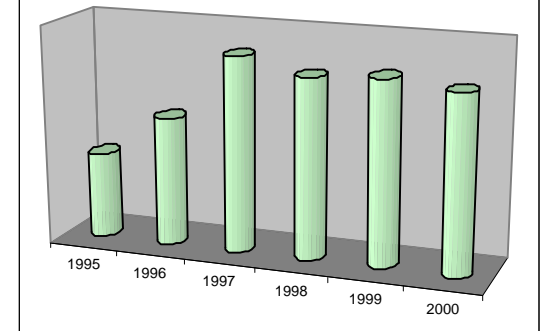
The regulation of charitable gaming was originally given to a division in the Justice Cabinet. However, given the expansion of authority and personnel, the Division was reorganized and made into a Department in 1998. It was then transferred to the Public Protection and Regulation Cabinet where it remains. The Department currently has a staff of fifty-five (55) which includes licensing, accounting, compliance, audit, investigation, legal, and executive staff.

The Department of Charitable Gaming licenses charitable organizations, charitable gaming facilities, distributors, and manufacturers; collects fees; and ensures compliance with the laws and regulations by conducting inspections, audits, and investigations. Kentucky's General Fund does not support the Department of Charitable Gaming. The Department is funded by the license fees paid by the charitable organizations, the facilities, the distributors, and the manufacturers, and the quarterly fee paid by each licensed charitable organization of 0.4% of their gross receipts.

**Pulltab Report**



**Bingo Report**



1995	98,634,493.98
1996	105,40,192.26
1997	116,144,664.49
1998	113,779,791.52
1999	114,472,992.91
2000	113,294,507.10

## II. LICENSES

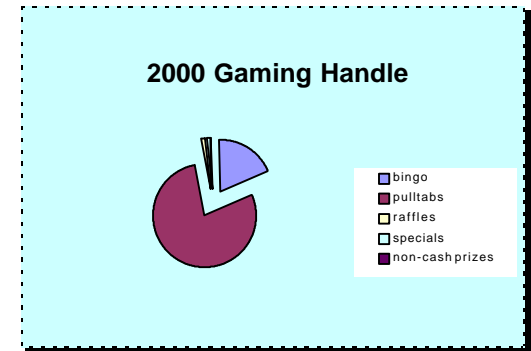
### A. CHARITABLE ORGANIZATION

A charitable organization is a non-profit entity organized for charitable religious, educational, literary, civic, fraternal, or patriotic purposes. A charitable gaming license permits a charitable organization to conduct bingo, sell pull-tabs, or hold raffles. A Special License may be obtained to conduct a charity fundraising event (fairs and festivals) or hold a special limited charity fundraising event (casino night).

In order to obtain a license, the charitable organization must be actively engaged in charitable activities and must have been established and continuously operating within the state for charitable purposes for three (3) years. The organization is also required to demonstrate that it has maintained an office or place of business or operation for one (1) year in the county in which the charitable gaming is to be conducted. Licensed charitable organizations are required to submit quarterly reports covering each calendar quarter to the Department and pay a fee based on their receipts.

All the people who work the game for the charity must be volunteers. No one can be a paid employee. It is also illegal for the players to “tip” the workers. While the Chairperson has to be a member of the charitable organization, the remaining workers do not have to be members.

**Bingo** is limited to the conduct of two (2) five (5) hour bingo sessions per week with a maximum limit of five (5) consecutive hours per session.



Bingo	113,294,507.10
Pulltabs	457,221,242.84
Raffles	5,251,278.60
Specials	8,486,991.80
Non-Cash Prizes	211,195.96
<b>TOTAL</b>	<b>584,465,216.30</b>

Prizes, both cash and non-cash, including door prizes, may not exceed \$5,000 per session.

**Pull-tabs**, also referred to as “charity game tickets,” “bankers,” “instants,” and “rip-offs,” may be sold only at the address of the location designated on the license to conduct charitable gaming unless the organization possesses a charity fund-raising event license or a special limited charitable gaming license for off-site locations. No prize for an individual charity game ticket shall exceed \$599 in value, not including the value of cumulative or carryover prizes awarded in games using seal cards. Cumulative or carry-over prizes in games utilizing seal cards shall not exceed \$2,400.

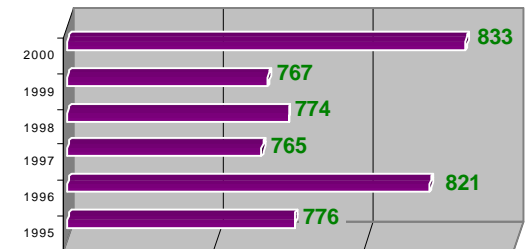
A **raffle** is a game of chance in which a participant is required to purchase a ticket for a chance to win a prize, with the winner to be determined by a random drawing. A licensed charitable organization may conduct an unlimited number of raffles per year. The raffles may be of unlimited duration, and there is no limit on prize amounts.

In 2000, the Department licensed eight hundred and thirty-three (833) charitable organizations. This is sixty-six (66) more than were licensed in 1999 and the most organizations licensed per year since our inception.

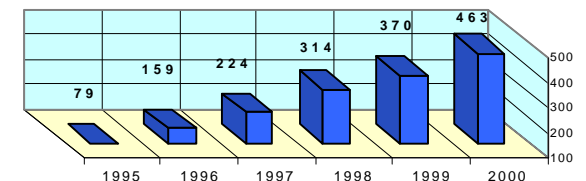
## B. EXEMPTION ACKNOWLEDGMENT

Any charitable organization that meets the qualifications for licensure but does not expect to have annual gross receipts totaling \$25,000 per year for bingo, raffle(s), and charity fundraising event(s) may be exempt from being licensed provided the organization first notifies the Department of its intent to engage in charitable gaming and applies for an Exemption Acknowledgment.

**Charitable Gaming Licenses Issued**



**Exemption Acknowledgements Issued**



Organizations possessing an **Exemption Acknowledgment** are not required to file quarterly financial reports with the Department and are exempt from payment to the Department of the fee on their adjusted gross receipts. In 2000, the Department issued four hundred and sixty-three (463) Exemption Acknowledgments. This number has risen steadily over the years.

### C. SPECIAL LICENSES

Each licensed charitable organization is eligible to apply for up to four (4) special licenses per year so that they might hold other types of charitable gaming, i.e., festivals or casino nights. Up to two (2) of the four (4) allowable special licenses may be used for special limited charity fundraising events (casino nights).

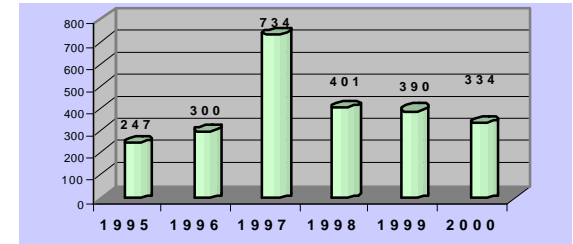
#### 1. Charity Fund Raising Event License

A charity fundraising event license is available for organizations conducting charitable gaming at fairs, carnivals, bazaars, or festivals. While special limited charitable games (casino-type games) and wagering on pre-recorded horse races may be conducted at a charity fundraising event, the predominant number of games of chance to be conducted must be festival type games. A charity fundraising event license may be valid for up to seventy-two (72) hours.

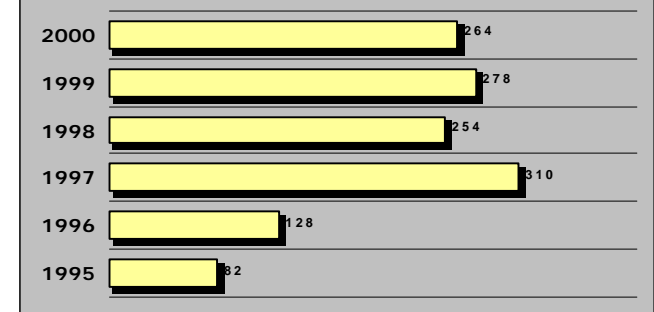
#### 2. Special Limited Fundraising Event License

“Special limited charitable games” are defined as roulette; blackjack; poker; keno; money wheel; baccarat; pusher-type games and any dice game

**SPECIAL LIMITED LICENSES ISSUED**



**Charity Fundraising Event Licenses Issued**



where the player competes against the house. In order to conduct these casino-type games, a licensed charitable organization must obtain a Special Limited Charity Fundraising Event License. The Special Limited Charity Fundraising Event License is issued for a period of time not to exceed six (6) consecutive hours.

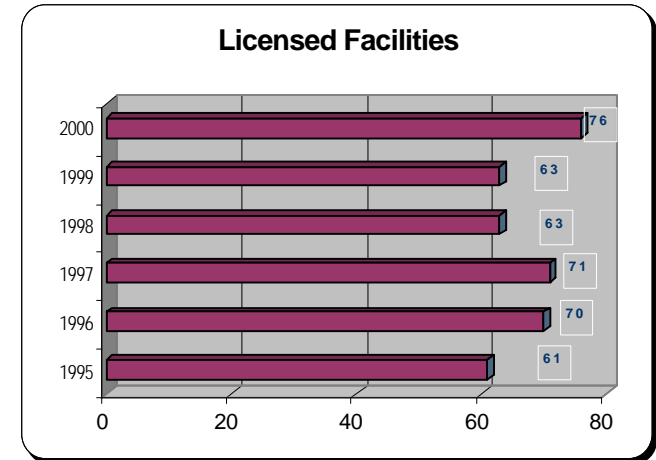
In 2000, the Department issued three hundred and thirty-four (334) special licenses of which two hundred and sixty-four (264) were charity fundraising event licenses, sixty-four (64) were special limited licenses, and six (6) were special temporary licenses.

#### **D. FACILITY**

A facility is a person, including a licensed charitable organization, who owns or is a lessee of premises which are leased or otherwise made available for financial consideration to two (2) or more licensed charitable organizations for the conduct of charitable gaming.

A licensed facility may furnish space for up to eighteen (18) bingo sessions per week if it is located in a city of the first class, a city of the second class, an urban county or charter county government, or in a county containing a city of the first or second class. A licensed facility at any other location is restricted to eight (8) bingo sessions per week. The license fee for eighteen (18) sessions is \$2,500 and the fee for eight (8) sessions is \$1,250. Each licensed facility may furnish space for up to seven (7) special limited charitable gaming events per year, with no more than one (1) event per week.

In 2000, the Department licensed seventy-six (76) facilities which is the largest number of facilities licensed since our inception. This number does not



include organizations which game out of their own facility or facilities which do not have more than two (2) organizations gaming.

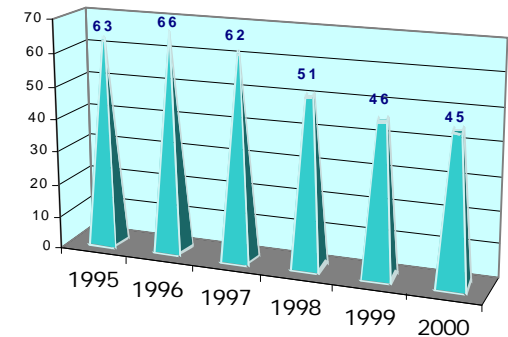
#### **E. DISTRIBUTOR**

A distributor is a person who sells, markets, leases, or otherwise furnishes charitable gaming supplies or equipment, or both, to charitable organizations for use in the conduct of charitable gaming. A licensed distributor is prohibited from selling charitable gaming supplies and equipment to any person not licensed as a charitable organization or as a licensed distributor. All distributors must purchase their inventory of charitable gaming supplies and equipment from licensed manufacturers or other licensed distributors in the state. The licensing fee for a distributor is \$250. The Department ended 2000 with a total of forty-five (45) licensed distributors. This number has continued to slowly decline since 1996. Licensees are almost equally divided between in-state and out-of-state businesses.

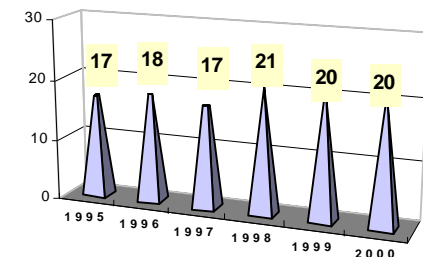
#### **F. MANUFACTURER**

A manufacturer is a person who assembles from raw materials or subparts any charitable gaming equipment or supplies used in the conduct of charitable gaming including a person who converts, modifies, and adds to or removes parts from charitable gaming equipment and supplies. A licensed manufacturer is prohibited from selling charitable gaming supplies and equipment to any person not licensed as a distributor in the state. The license

**Licensed Distributors**



**Licensed Manufacturers**





fee for a manufacturer is \$500. In 2000, the Department licensed twenty (20) manufacturers, all of whom are out of state businesses. This number has remained fairly constant through the years.

### **III. ORGANIZATION OF THE DEPARTMENT**

The Department is composed of the Commissioner's Office; the Office of General Counsel; and two (2) divisions, the Division of Licensing and Compliance and the Division of Enforcement.

#### **A. COMMISSIONER'S OFFICE**

The Commissioner's Office is responsible for all aspects of administration of the Department including budget, personnel, computer technology, and management of the physical plant. This office also acts as the cabinet and legislative liason.

#### **B. OFFICE OF GENERAL COUNSEL**

The Office of General Counsel prosecutes administrative actions, answers questions from the licensed entities and the general public about charitable gaming, and advises Department personnel.

#### **C. DIVISION OF LICENSING and COMPLIANCE**

The Division of Licensing and Compliance has three (3) branches, Licensing, Compliance, and Accounting.

*The Commissioner's Office is committed to assisting charities raise funds through charitable gaming by education, training, and enforcement.*

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*The Office of General Counsel is always willing to answer questions regarding the gaming laws.*


### 1. Licensing Branch

Licensing personnel review the license applications from all entities, applications for special licenses and Notices of Exemption from organizations; send deficiency letters if required; refer the applications for criminal history checks; review exempt status of organizations; issue licenses; and process any changes requested in the licenses.

### 2. Accounting Branch

This branch reviews and reconciles the quarterly report forms filed by the organizations, processes the fees for all licensees, and calculates the retention rate of the organizations based on their quarterly reports at the conclusion of the calendar year.

### 3. Compliance Branch

A total of thirteen (13) Compliance Officers are regionally located throughout the state. They conduct on-site inspections of licensed charitable gaming activity to assure adherence to applicable charitable gaming statutes and administrative regulations. In addition, the inspectors investigate complaints and upon request, provide training to new licensees. During 2000, the Compliance Branch conducted a total of two thousand and eighteen (2,018) inspections, over eight hundred (800) more than last year. They also investigated one hundred and thirty-one (131) complaints. The inspections are broken down in the chart on the right. 

*The Department's accounting section is always willing to answer questions and assist charities in completing their quarterly reports.*

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*Compliance Officers can assist the charities in learning how to conduct the games properly.*

### INSPECTIONS

97	Facilities
125	Charity Fundraising Events/Special Limited Events
1,796	Charitable Organizations

## **D. DIVISION OF ENFORCEMENT**

The Department has strong enforcement powers which include examining charitable gaming supplies and equipment and conducting in-depth audits and investigations. The Division of Enforcement has two (2) branches, Audit and Investigations.

### **1. Audit Branch**

The Audit Branch has a total of nine (9) auditors regionally located throughout the state and is headed by a certified public accountant. The Auditors conduct in-depth audits of charitable gaming activities to ensure that high standards of accounting, record keeping and reporting of charitable gaming receipts are met. The results of such audits may lead to corrective measures on the part of a licensee and/or administrative action against the charitable organization's license. In 2000, the Audit Branch opened a total of forty-two (42) audits, and completed thirty-nine (39) audits, twenty-five (25) from 1999 and fourteen (14) from 2000.

### **2. Investigations Branch**

There are five (5) investigators regionally located throughout the state. They investigate complaints with allegations of criminal wrongdoing. These criminal allegations include theft, forgery, criminal possession of a forged instrument, promoting gambling, possession of a gambling device, participating in a continuing criminal enterprise, tax evasion, and money laundering.

The results of these investigations could result in administrative action or civil/criminal action. There are currently two (2) cases under indictment in

The auditors conduct the mandatory training required for charities that fall below the 40% retention requirement.



*IT IS A CLASS 'D' FELONY TO DIVERT CHARITABLE GAMING FUNDS OVER \$300.*

the state court for diversion of charitable gaming funds and many more cases under investigation. In several of these cases the Department is cooperating with the federal prosecutor and federal law enforcement agencies, the Kentucky State Police and local law enforcement.

#### **IV. COUNTY BY COUNTY BREAKDOWN**

The following pages include charts of the gross receipts, gross pay-outs, expenses, and attendance broken down by county.

